Manitoba
Highways and
Transportation

Submission of the Province of Manitoba

to the House of Commons
Standing Committee on Transport

Covering the Document Entitled
"Freedom to Move"
A Framework for a New Transportation Act

Winnipeg, Manitoba
November 21, 1985

Presented by
The Honourable John S. Plohman
Minister
Highways and Transportation

SUBMISSION OF THE PROVINCE OF MANITOBA

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STANDING COMMITTEE ON TRANSPORT

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EXECUTIVE SUMMARY

1. INTRODUCTION

Mr. Chairman and Members of the Committee. Welcome to Manitoba.

I appreciate the opportunity to appear before you to present the views of the Government of Manitoba on the federal proposals for transportation reform. We see these proposals as providing the foundation for perhaps the most sweeping changes in transport policy in this century. To us, therefore, it is of absolute importance that these changes be compatible with Manitoba user and carrier needs.

2. SIGNIFICANCE OF TRANSPORTATION TO MANITOBA

Transportation is vital to Manitoba. Our dependency upon both efficient transportation and effective transport policy is based on the long distance to markets for Manitoba products and our captive status.

We place a high value on the 30,000 Manitobans employed in transportation and distribution and we are actively pursuing the maintenance and growth of this important employment base. Transportation accounts for a larger share of gross domestic product in Manitoba (8-9%) than in Canada as a whole (5-6%). In fact, transportation accounts for 15% of our provincial economy. It is vital that Manitoba maintain and expand its historic role as a centre for transportation and distribution.

3. OBJECTIVES OF THE NEW TRANSPORTATION ENVIRONMENT

The primary objective of the new transportation environment should be to improve the social and economic status of Canadians having due regard for:

- safety;
- economic development and employment, including transport related labour;
- lack of uniform competition in Canada;
- small and captive shippers and communities;
- desire to improve service through an efficient transportation system.

Manitoba encourages changes to the existing regulations and supports the stated objectives of:

- improved safety;
- making transportation more responsive to user needs;
- streamlining the regulatory process;
- minimizing the extent and complexity of the regulations imposed on carriers and users;
- providing a more competitive transportation environment;
- reducing the unit cost of transportation.

4. TRANSPORTATION AND DEVELOPMENT

Low cost, reliable, year-round transportation was, and is, essential to nationhood. Government leadership and financing in transportation is mandatory in our country.

On August 21, 1985, Canada's Premiers issued a communiqué asking that the new National Transportation Act incorporate the following:

a) Transportation is recognized as a key to regional economic development; and

b) Commercial viability of transportation links must be balanced with regional economic development objectives in order that the potential economic strengths of each region may be realized.

It is imperative these policies be enshrined in the new legislation.

We are gravely concerned over federal budget cuts in transportation and related research together with an objective of cost recovery through increased user fees. We are also concerned that the Nielsen Task Force on regulatory agencies and transportation programs could recommend further reductions in federal support in transportation leading to possible additional cost transferences to other jurisdictions.

This could be counter to development initiatives and it would create a widening of the opportunity gap between the "have" and "have not" provinces.

5. CROWN CORPORATION CARRIERS

Crown corporation carriers have served a vital economic development role in our country. The Federal Minister advises that commanding the two crown corporations to behave like private corporations means freeing them from social burdens and that alternative means of meeting social and economic obligations will have to be found. Since transportation must continue to play a developmental role it is mandatory that alternate delivery mechanisms be put in place before introducing the new legislation.

6. COMPETITION IN TRANSPORTATION

Our market and transportation mix is not a mirror image of the U.S. scene. We are not blessed with an extensive and mature mix of industry and competition. It must be recognized that competition is not uniformly pervasive across Canada. Regulatory controls are necessary to protect those regions and shippers who do not have the benefit of competitive forces.

7. PROVISION OF TRANSPORTATION RESOURCES

If we are to maintain and improve our competitiveness in international markets against countries who are subsidizing production, manufacturing and transportation, we must also subsidize transportation and exports.

At the same time, we must avoid the high cost of providing duplicate transport infrastructure recognizing the limited availability of funds. This is achievable through the optimum utilization of existing resources.

8. RAIL TRANSPORTATION

Our captive status requires access to effective regulatory protection since monopolistic rail pricing would inhibit economic initiatives. Therefore, in addition to the Freedom to Move proposals we believe the system must include the following:

- discrimination must be considered as a criteria in qualifying for redress;
- the equivalent of competitive freight rates in the absence of competition;
- developmental freight rates where justified;
- proportional rates for captive rail shippers where the originating railway has defaulted in rate negotiations.

Confidential Contracts

The new legislation must provide for effective recourse by a captive shipper who is prejudicially affected by railway contract action. Specifically, captive shippers must have access to rates and contracts comparable to those in the more competitive regions.

Competitive Access by a Captive Shipper to Another Railway

Where a shipper is served by one railway at origin, he should be accorded competitive access to the lines of other railway companies in order to ensure the broadest competitive access to all rail carriers. We would also urge expanded interswitching limits and joint track usage to increase competition.

Cost Disclosure

In the new transportation environment it will be necessary to make costing data available since carriers are to be compensated for imposed service duties. It will also be required in developing cost related rates, including joint line rates.

Branch Line Abandonments

While the paper proposes "an additional protection for grain-dependent branch lines will be maintained" it is not clear exactly what form this protection will take. No branch line in the guaranteed network should be abandoned unless it can be clearly established that it is no longer required. In all cases the railway should establish that it has been operating at a loss. No branch line should be abandoned without a public hearing. The Agency should be governed by considerations of the public interest in making its determination and the provisions of Section 254(3) of the Railway Act should continue to apply.

Compensation programs must be introduced to offset additional road costs incurred by the provinces and municipalities as a result of federally imposed rail abandonments.

9. AIR TRANSPORTATION

While we support reliance upon competition in a mature market, we insist that programs be introduced to protect the fragile northern service market. Air service is not a luxury in this market - it is a vital lifeline.

North Dakota has experienced a significant decline in air service and a disproportionate increase in fares in the deregulated environment. This would be unacceptable for our smaller remote communities.

Regulatory and support programs must ensure:

- maintenance and enhancement of existing services;
- provision of adequate, safe and reliable aircraft;
- protection against disproportionate increases in air fares or rates.

10. EXTRA-PROVINCIAL TRUCKING

Manitoba supports the initiatives which are being taken to reduce the economic regulation of extra-provincial trucking operations. We do, however, have the following concerns:

a) Plans to "shift the burden of proof" in the application process should be eliminated. "Reverse-onus", by its nature, may result in claims of discrimination against American carriers and possible retaliatory action by the United States.

b) As agreed by the Council of Ministers responsible for transportation in their meeting of October 4, 1985 in Vancouver, a thorough study of the competitive position of Canadian carriers in a free access continental transport market must be conducted. Deregulation of Canadian trucking should form part of the comprehensive trade agreement with the United States.

c) Reforms must be implemented in a consistent manner throughout the country.

d) Deregulation should not be staged. When studies are completed and support programs established, economic regulation should be eliminated by moving directly to a fitness test for service entry.

e) The anticipated adverse impact of deregulation on labour should be ameliorated.

f) The federal government must provide funding for highway infrastructure and maintenance to accommodate overhead traffic.

11. PORTS AND MARINE TRANSPORTATION

Federal policy must provide sufficient local autonomy to encourage the implementation of programs compatible with local port needs. On the other hand, the federal government must retain sufficient control to encourage the evolution of a complimentary port system across Canada. This would include the provision of "safety valve" outlets in the event of service disruptions over the major arterial routes. Ports such as Churchill offer this potential and therefore justify active programs.

It is imperative that the new transportation environment enhance the targeted objective of the $93 million Canada - Manitoba Subsidiary Agreement on Churchill. To do otherwise would be a great disservice to the present and future interests of the region and the country.

12. THE REGULATORY PROCESS

We subscribe to the concept of the White Paper that policies should be developed by the government and translated into legislation. We support the concept of establishing regional offices for the regulatory agency and would add that appointments should ensure that staff are fully conversant with the transportation and distribution needs of the region.

In view of the economic and transport related activity in Winnipeg we believe that it is essential that a major regional office of the regulatory agency be located here to administer the various modes.

I. INTRODUCTION

Mr. Chairman and Members of the Committee. Welcome to Manitoba.

I appreciate the opportunity to appear before you to present the views of the Government of Manitoba on the federal proposals for transportation reform. We see these proposals as providing the foundation for perhaps the most sweeping changes in transport policy in this century. To us, therefore, it is of absolute importance that these changes be compatible with Manitoba user and carrier needs.

Transportation is vital to Manitoba. Our dependency upon both efficient transportation and effective transport policy is based on the long distance to markets for Manitoba products and our captive status. We must continue to rely upon rail and highway service in our development initiatives involving the agricultural, forestry and mineral sectors as well as processed products derived from these base resources.

Relative to the size of our population more people are employed in transportation in Manitoba than in other Canadian jurisdictions. We place a high value on the 30,000 Manitobans employed in transportation and distribution and we are actively pursuing the maintenance and growth of this important employment base. Transportation accounts for a larger share of gross domestic product in Manitoba (8-9%) than in Canada as a whole (5-6%). In fact, transportation accounts for 15% of our provincial economy.

We are pleased to have 9 of the 15 major Canadian trucking companies headquartered in Winnipeg. CN and CP regional headquarters are also located here. Extensive benefits are derived

from related business, maintenance, manufacturing and other transportation support sectors. The significance of transportation as an industry in Manitoba warranted its selection as a priority area for economic development agreements with the federal government. It is vital that Manitoba maintain and expand its historic role as a centre for transportation and distribution.

It follows, therefore, that any action prejudicing service or transport operations is of grave concern to all Manitobans.

Transportation policy changes are essential and are welcomed provided they meet the long term socio-economic needs of Manitoba.

The Federal Minister of Transport in his address to the Canadian Industrial Transportation League in Ottawa on February 21, 1985, made the following observations:

- Canada will probably never have transportation costs as low as competing nations because of the vast distances, geographic and climatic barriers;

- competition and market forces should replace regulations and government edicts "wherever possible and appropriate";

- the new legislation and policy framework will be orderly and evolutionary.

Mr. Mazankowski expanded on the need to proceed cautiously:

> "This is not the United States and any new transportation policy will only have long-term benefits if it is developed from a Canadian

> perspective in recognition of our country's unique economic, social and political realities of transportation in Canada. In particular, our remote and northern regions must be assured a reliable and affordable transportation system for moving both people and freight."

According to the September 27, 1985 issue of the Globe and Mail, when asked about the lesson to be learned from the U.S. experience with deregulation the Federal Minister stated:

> "The biggest lesson we can learn is that you don't go headlong into deregulation with the finesse of a rhinoceros, as the United States did."

We are pleased that the Minister shares our concerns that Canada is unique with respect to the transportation system we have and the specialized transportation needs of our people.

In view of the sweeping changes that are now being proposed, I believe it is essential that some warning with respect to the application of "efficiency" in transportation be given. From a standpoint of carrier economics, "efficiency" is not always consistent with the national objectives of regional economic development, economic recovery and job generation. In a deregulated market, carriers obviously will focus on the profit making sectors of their operations and will abandon less profitable sectors which could cause serious service gaps. In many instances, however, unprofitable routes or services may be essential to promote developments or processing and manufacturing activities providing a net economic or social benefit.

Examples of this include the extensive public funding required to link and unite Canada with the construction of the CP rail line and the construction of the St. Lawrence Seaway. Reasonably priced and reliable services to small and remote communities of which we have so many in our country must be retained as essential services. This may not always be "efficient" from a carrier perspective.

Regulatory reform must not result in monopolistic pricing or undue fare and rate escalation for small and captive shippers or communities.

Canada competes with other countries that subsidize transportation and/or their export products. Canada will have to do likewise to maintain or improve its position in export markets. Put simply, we cannot be competitive as a nation with the total cost burden being placed upon the user.

The primary objective of the new transportation environment should be to improve the social and economic status of Canadians having due regard for:

- safety;
- economic development and employment, including transport related labour;
- small and captive shippers and communities;
- desire to improve service through an efficient transportation system.

Manitoba encourages changes and supports the stated objectives of:

- making transportation more responsive to user needs;
- streamlining the regulatory process;
- minimizing the extent and complexity of the regulations imposed on carriers and users;

- providing a more competitive transportation environment;
- reducing the unit cost of transportation;
- improving safety.

The majority of jurisdictions and system participants have supported the need for change but have expressed strong views on the potential negative impacts. We will be addressing the specific areas of concern and will be offering possible solutions and recommendations in the interests of users and equitable regional development in our country.

II. TRANSPORTATION AND DEVELOPMENT

The role of transportation and regional economic development and trade has received extensive attention throughout Canada's history. Low cost, reliable, year-round transportation was, and is, essential to nationhood. Government leadership and financing in the provision of infrastructure and, in special circumstances service, is (and has been) mandatory in our country. We must always consider the vast distances, geographic and climatic barriers, sparse population and widely dispersed economic activity along with our national, social and economic requirements.

On August 21, 1985, Canada's Premiers issued a communiqué on regional economic development. The communiqué quoted the following resolution with respect to the role of transportation as a regional economic development tool:

> "WHEREAS the importance of regional economic development has been agreed upon by all governments, we the Provincial Premiers, call on the Government of Canada to incorporate in the proposed new National Transportation Act in addition to an objective of commercial viability, the following:
>
> 1) Transportation is recognized as a key to regional economic development; and
> 2) Commercial viability of transportation links must be balanced with regional economic development objectives in order that the potential economic strengths of each region may be realized."

The Premiers also made reference to the significant achievement of Regional Development Ministers - provincial and federal - in the formulation of 9 principles which were endorsed at the Regina First

Ministers' Conference. Since these principles have been accepted and endorsed by national and federal ministers, premiers and the prime minister, they provide the guidelines for establishing transportation policies that are compatible with the stated objectives. These principles are:

1. The federal and provincial governments view regional economic development as a high priority among national and provincial economic goals.

2. The overall objective of regional development is to improve employment and income through sustainable economic activity based on realistic opportunities in each region.

3. Initiatives should be developed through consultation and discussion to assist Canadians in the less developed regions to achieve greater economic security based on economic opportunity.

4. Closer federal-provincial cooperation should be achieved by harmonizing all regional economic development efforts.

5. All major national policies should be judged, in part, in terms of their regional impact. And, so far as is possible, those policies should reinforce the goal of fair and balanced regional development.

6. Particular emphasis by governments should be given to improving the investment climate, to removing impediments to growth, and creating opportunities for the private sector to contribute to maximum economic growth in all parts of Canada.

7. Continuing consultation with the private sector should focus on policies in areas such as innovation, exports, marketing, productivity and training with the overall purpose of developing concerted strategies for growth and adjustment.

8. Governments should explore opportunities for increasing interregional trade and eliminating barriers between provinces.

9. Transportation is recognized as a key to regional economic development.

We are disappointed that the federal government seems not to have recognized to this point the requirement to have the proposed legislation include recognition of the role of transportation as a regional economic development tool. We believe that this is a serious error and it must be rectified.

Nonetheless, as stated previously, at the Regina First Ministers' Conference the federal government endorsed the principle that transportation is recognized as a key to regional economic development. We are, therefore, gravely concerned that the federal government would initiate extensive budget cuts in transportation and related research and, further, press for cost recovery through increased user fees. We are also concerned that the Nielsen Task Force on regulatory agencies and transportation programs could recommend further reductions in federal support in transportation leading to possible additional cost transferences to other jurisdictions.

It is essential that in attempting to strive for lowering the unit cost of transportation that the Federal Government does not impose cost transferences since this merely results in the shifting of a

cost rather than cost reduction. Furthermore, the burden of cost transferences is more accutely felt in developing regions and provinces where competition is less pervasive. These provinces do not have the resources to provide compensation. What we have then, are cost transfers merely creating a growing economic disparity in favour of the "have" provinces.

We all recognize that historically crown corporation carriers have served a vital economic development role in our country. According to the October 4, 1985, issue of the Vancouver Province the Federal Minister of Transport advises that Air Canada and CN Rail are to be freed from the social responsibilities that they have historically borne as state owned enterprises. The Federal Minister was quoted as saying that the Federal Government appreciates that commanding the two crown corporations to behave like private corporations means freeing them from social burdens and that alternative means of meeting social and economic obligations will have to be found. Since transportation must continue to play a developmental role it is mandatory that alternate delivery mechanisms be put in place before introducing the new legislation.

We simply must know what will replace the current system.

III. COMPETITION IN TRANSPORTATION

A great deal has been said about the need to improve the competitive environment in transportation. Manitoba welcomes this initiative. However, we believe that reliance upon intermodal and intramodal competition alone will not protect user and developmental interests to the extent required. Therefore, the emphasis on competition must not be carried too far.

Very few regulatory controls are required in a scenario where both transportation and economic forces are in a fully mature state and one in which competition is uniformly pervasive. In this environment unjust discrimination and service shortfalls would be minimized as a result of the competitive interaction within and between the various modes of transport as has been the case in the United States. We would be very pleased indeed if such an environment existed in the Prairies since it would be most conducive to promoting both our economic development and social objectives.

Unfortunately, this mature environment is absent in much of the western area of our country. Freight shipments tend to be captive either by virtue of geographical location or as a result of the inherent nature of the goods shipped. For example, the lack of water competition results in a heavy reliance on the rail mode for the movement of bulk commodities over long distances. A large percentage of rail shipments originate in Western Canada, very little of which have access to alternative means of transportation.

Our market and transportation mix is not a mirror image of the U.S. scene. We are not blessed with an extensive and mature mix of industry and competition. It must be recognized that competition is not uniformly pervasive across Canada. Regulatory controls are necessary to protect those regions and shippers who do not have the benefit of competitive forces.

IV. PROVISION OF TRANSPORT RESOURCES

The provision of transport resources in Canada has historically required a combination of private and public funding in order to conquer the vast expanse, geographic barriers and northern extremities of our country. If we are to maintain and improve our competitiveness in international markets against countries who are subsidizing production, manufacturing and transportation, we must also subsidize transportation and exports.

At the same time, we must avoid the high cost of providing duplicate transport infrastructure recognizing the limited availability of funds. This is achievable through the optimum utilization of existing resources. Joint track usage could eliminate the need for the costly twinning of tracks. Multi-modal terminals could reduce infrastructure and maintenance costs while, at the same time, promoting system efficiency.

We appreciate the federal minister's awareness of the inability of shippers to absorb inordinately high costs and remain competitive in domestic or international markets. We also believe that the cost to the shipper or passenger must generally reflect the cost of services provided within the context of their ability to pay. Canadian carriers and transport arteries must remain competitive in order that Canadians may derive maximum benefit from the flow of commerce.

Every effort must be made to establish plans to utilize alternate Canadian gateways as a safety valve to minimize the impact of a shortage of transport capacity and service disruptions over the mainstream routes. Reliance upon the United States gateways for the movement of our export grain is not an advisable option - particularly since our grain is in competition with U.S. grain.

V. RAIL TRANSPORTATION

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Reliance on Rail Service

Railway operations are extremely important to Manitoba. The Railways have played a major role in the development of our economy, particularly in linking Manitoba to distant markets. The 3900 mile rail network in Manitoba is expected to be an integral component to future developments, particularly with respect to hydro and resource exploitation. The 13,000 rail employees in Manitoba are extremely important to the Manitoba economy and we are actively pursuing the maintenance and growth of this important employment base.

Because of the virtual absence of water competition, and the long distance to sea ports, we must continue to rely upon rail service in our development initiatives involving the agricultural, forestry and minerals sectors as well as processed products derived from these base resources. Our captive status requires access to effective regulatory protection since monopolistic rail pricing would inhibit economic initiatives. It is imperative and equitable within the Canadian context that we obtain competitive rate scales offered to shippers in other regions that have access to a strong and mature mix of competition including market, water and off-shore competition.

Impact of Enforced Competition in the Rail Mode

We believe that enforced competition in the rail mode will result in the following:

- regional rate relationships, uniform rate scales and rate groupings being jeopardized by confidential contra ts;
- through rates being replaced by higher joint rates;
- rate reductions for competitive shippers resulting in increased rates for non-competitive shippers;
- larger shippers benefitting over small shippers.

These negative consequences are a matter of grave concern to the province and require counterbalancing measures.

Redress Procedure

It is reassuring to see that the proposals call for a lower cost and more accessible redress procedure. These include:

- strengthening Section 23 of the Act for captive shippers;
- joint rates to minimize "captive" rail status
- mediation
- arbitration
- reparations awards in rate disputes

Definitive guidelines must be set to insure effective redress. The system must include the following:

- discrimination must be considered as a criteria in qualifying for redress;
- the equivalent of competitive freight rates in the absence of competition;
- developmental freight rates where justified;
- proportional rates for captive rail shippers where the originating railway has defaulted in rate negotiations.

Confidential Contracts

According to Freedom to Move it has been determined that the Canadian railways should be allowed to enter into confidential contracts in rate negotiations with shippers. While this may prove to be beneficial to shippers in the more competitive regions of the country, small volume shippers and captive shippers may be expected to bear the burden of monopolistic rates. There must be effective redress for these shippers.

Accordingly, it is submitted that where a shipper believes that he is disadvantaged because a railway has entered into a confidential contract with a competitor, he should have recourse to the Transportation Agency. He should be required to demonstrate that he was prepared to enter into arrangements with the railway on essentially similar terms accorded his competitor. Even where the conditions are not similar the shipper should be entitled to receive proportional consideration for the conditions he is able to meet.

It accordingly becomes necessary that certain particulars of confidential contracts filed with the Agency be made available for public inspection. Interested parties should be able to determine parties to the contract, origins and destinations and commodities to be transported.

An aggrieved shipper should be able to have the tribunal review particulars of a contract. Where the shipper employs independent counsel or advisors, confidential particulars should be disclosed to them upon their undertaking to maintain confidentiality. This is the current practice before many Canadian tribunals.

An aggrieved shipper should then be able to succeed where he is able to demonstrate that he was ready, willing and able to enter into arrangements on similar conditions as his competitor. The shipper should also be able to obtain proportionate relief appropriate to the conditions that he can meet.

Time limits should be imposed for the disposition of such complaints. Recourse should be by way of arbitration as well as Section 23 of the National Transportation Act.

Competitive Access by a Captive Shipper to Another Railway

Where a shipper is served by one railway at origin, he should be accorded competitive access to the lines of other railway companies in order to ensure the broadest competitive access to all rail carriers.

The effective implementation of this proposal could be of great benefit to a captive shipper if an appropriate method for establishing a joint rate is established.

The Province of Manitoba believes that joint rates should be constructed on the following basis. Where a shipper has a through rate with a railway serving it at origin and that railway is uncompetitive, the captive shipper could negotiate a rate with a competitive railway company from its origin to the shipper's required destination. A joint rate would be constructed by pro-rating the through rate which was previously in effect with the railway serving the shipper's origin and adding a surcharge to the pro-rate based on the appropriate rate of inflation. For example:

1. Origin railway is demanding an increase in rate from $3.00 per 100 lbs. to $4.00 per 100 lbs. for hauling widgets from point A to point C.

2. Shipper approaches a second railway and negotiates a rate from the nearest point of interchange - point B to point C of $2.50 per 100 lbs.

3. Given a rate of inflation of 10% the shipper would pay a through rate based on the following:

   old rate + inflation
   = $3.00 + 10%
   = $3.30

4. Origin railway would receive for the haul from point A to interchange point B:

   New rate less second railway's portion
   = $3.30 - $2.50
   = 80 cents per 100 lbs.

While it would be expected that the railway serving the shipper's origin would argue that its contribution would be reduced because of high terminal costs having to be absorbed out of the short line haul rate, the Province of Manitoba submits that this should not be a deterrent to the implementation of its proposal.

Where a railway company serving the origin of a captive shipper is unwilling to provide competitive rate levels, it is appropriate that it be penalized by the accordance of a pro-rate even if the rate results in a lower contribution.

It is also recommended that expanded interswitching limits and joint track usage programs be considered in order to provide a more competitive environment.

Preferred options include minimum compensatory rates or rates based on long run variable costs from origin to the point of interchange with the delivering carrier and a negotiated rate beyond to destination.

Cost Disclosure

The provinces have been advocates of allowing interested parties unencumbered access to detailed rail costing in rate and service disputes. In the new transportation environment it would appear to be more important to make this data available since carriers are to be compensated for imposed service duties. It will also be required in developing cost related rates, including joint line rates.

This information has been published for years in the United States and we see no valid reason why it should not be possible to publish this data in Canada.

Branch Line Abandonments

Freedom to Move proposes removing the protection of the rail network guaranteed to the year 2000 in order to allow lines to be abandoned. Railways would be allowed to abandon lines by providing 120 days notice. They would not have to prove operating losses. A public hearing would be held if objections are filed and then only if no other party has applied to operate the branchline.

While the paper proposes "an additional protection for grain-dependent branch lines will be maintained" it is not clear exactly what form this protection will take. The Province of Manitoba submits that the Transportation Agency should not be empowered to allow abandonment of any branch line in the guaranteed network unless it can be clearly established that it is no longer required.

In all cases the railway proposing to abandon a line must establish that it has been operating at a loss. No branch line should be abandoned until the public has a full opportunity to be heard at a public hearing and that all facets of the public interest are fully explored by the Agency. The Agency should be governed by considerations of the public interest in making its determination and the provisions of Section 254(3) of the Railway Act (see Appendix A) should continue to apply.

Abandonment costing under Cost Order R6313 must be revised because of the wide perception that costs are overstated. There should also be full cost disclosure to the public for their evaluation. Compensation programs must be introduced to offset additional road costs incurred by the provinces and municipalities as a result of federally imposed rail abandonments.

Rail Passenger Service

It is appreciated that Freedom to Move has purposely avoided rail passenger service since this is being considered under separate legislative activity. However, we would like to state that we fully support the federal government's commitment to retain and upgrade rail passenger service. We are hoping that this will eventually lead to the decision to reintroduce the plans for effecting VIA Rail passenger equipment repairs in Winnipeg including the provision of a new repair facility.

We would also ask that the federal government ensure that the provinces are kept fully informed on the proposed legislative changes affecting both intercity and urban rail passenger services.

VI. AIR TRANSPORTATION

The deregulation of the air sector has been in evolution for the past two years. It is interesting to note that the result has been for increased concentration of the airline industry. This has apparently been in anticipation of a completely deregulated environment. New entries have focussed on the dense markets. It is here where service improvements and competitive bidding for traffic is occuring.

While we support reliance upon competition in a mature market, the fragile northern market requires special consideration.

Carriers have alleged that there has been a measure of cross-subsidization in the provision of service to smaller and remote centres. Deregulation could result in new competition to major northern centres. These larger centres provide the revenue base of local carriers serving the smaller communities. The loss of this base will likely result in rate and fare increases and/or service reductions. We believe that it will be difficult for a number of the more remote communities to be provided relatively low cost scheduled services on a stand alone basis.

There is evidence to support our concern.

According to the Upper Great Plains Institute, air services in North Dakota, South Dakota, and Minnesota have generally declined and it is only major population centres such as Minneapolis that has realized any significant air service gains. Their study "Effects of Airline Deregulation on Air Fares and Service in North Dakota" published March, 1984, disclosed the following:

- the seven major cities in North Dakota had 108 fewer departures and 8,646 fewer seats available per week in 1983 compared to 1978. (Losses represent a 23% decline in departures and a 21% decline in seats).

- fares from Bismark and Fargo increased by 106% and 99% respectively between 1979 and 1982. These increases were 43% and 38% above the rate of inflation over the same period.

- discount fares from North Dakota origins were approximately 50% higher than those in effect at Los Angeles and Houston.

It will be noted that these major North Dakota communities are substantially larger than our remote northern communities. We would not view these types of service declines and fare increases as being acceptable for our remote northern communities.

Freedom to Move proposes the introduction of subsidized services to small and remote communities but only in cases of "urgent necessity". There has been no declaration of details. What evaluation criteria is to be employed? What vehicle is to be used to deliver the program? How and to whom do communities apply for support? We require answers to these questions before implementation of the new legislation.

It is essential that these details be developed with particular attention to addressing the following:

- maintenance and enhancement of existing services;
- provision of adequate, safe and reliable aircraft;
- protection against disproportionate increases in air fares or rates.

Air service in the northern region is not a luxury - it is a necessity. We prefer maintenance of the current system. If an alternate system of direct support programs is to be introduced, it is absolutely essential that the questions we have raised be answered and that a full and complete program be in place before abandoning the regulatory approach.

Transportation Tax

In implementing increased user fees to cover the cost of providing support services the province of Manitoba would recommend that every effort be made to ensure that these charges are commensurate with user's ability to pay as well as being equitable. In this regard, we believe that the federal government has introduced an unduly discriminatory tax which penalizes the long distance traveller and which does not bear any relationship to the cost of providing the support services. We would urge that more equitable arrangements be considered which would involve establishing a flat tax with exemptions in northern communities which rely on air transportation as an essential service.

Bilateral Agreements

Manitoba believes that the provinces should be consulted on air bilateral negotiations involving services affecting their communities.

VII. EXTRA-PROVINCIAL TRUCKING

Manitoba supports the initiatives which are being taken to reduce the economic regulation of extra-provincial trucking operations. We do, however, have the following concerns:

1. Plans to "shift the burden of proof" in the application process should be abandoned. Opposing carriers may not be able to prove an adverse impact from the granting of an application as anything more than speculative. They may very quickly give up on pursuing oppositions, resulting in effective deregulation without preparation for its consequences. Should a transport board choose to act on the speculative evidence of adverse impact presented, the Board will be engaging in an assessment of the relative value of public economic and social development goals, versus the promotion of interprovincial and international trade. These fundamental policy decisions should be made by elected representatives, not regulatory tribunals.

   This could be particularly controversial with respect to international transportation. Should a board fear serious adverse impacts on local employment in trucking and related industries from the entry of major American carriers, and give a higher priority to such employment than to international trade allegations of discrimination could be made by the United States. The present entry test has been accepted as being non-discriminatory.

2. As agreed by the Council of Ministers responsible for transportation in their meeting of October 4, 1985 in Vancouver, a thorough study of the competitive position of Canadian carriers in a free access continental transport market must be conducted. The study will include an assessment of the

extent to which United States carriers may control our nation's highway transport capacity. Due to the linkage of this issue with general trade issues we recommend that reduced regulation of the Canadian trucking industry form part of the comprehensive trade discussions with the United States.

3. Reforms must be implemented in a consistent manner throughout the country. If necessary, federal legislation should be used to ensure national uniformity.

4. Deregulation should not be staged. Once the stages are known the application and hearing process will break down. Applicants are likely to await the final stage of deregulation before making major applications as the cost will be much less. Respondent carriers will file oppositions solely for the purpose of delay. Thus carriers will be less responsive to the existing needs of shippers. Accordingly, the existing economic regulation of extra-provincial trucking should be amended by moving directly to a fitness test at the appropriate time.

5. The anticipated adverse impact of deregulation on labour should be ameliorated. Prior to deregulation, suitable Federal hours of work regulations should be strictly enforced, and working conditions of drivers should be studied and monitored, with a view to the institution of Federal legislative protection.

6. The federal government must provide funding for highway infrastructure and maintenance to support overhead traffic. Such funding should include:

   - Trans Canada Highway;
   - Yellowhead route;
   - Highways 12, 59 & 75

7. The federal government must make funding available for road costs incurred by the provinces and municipalities as a result of federally imposed rail abandonments.

VIII. PORTS AND MARINE TRANSPORTATION

Manitoba supports Regional Port Advisory Councils as a forum in which to register concerns and views. We have also appreciated the opportunity to participate as a partner with the Government of Canada in sponsoring programs designed to upgrade the facilities at the Port of Churchill and enhance its role as both a port of export and import as well as resupply.

We believe that federal policy with respect to ports must achieve a delicate balance. On the one hand, it must provide sufficient local autonomy to encourage the implementation of programs compatible with local port needs. On the other hand, the federal government must retain sufficient control to encourage the evolution of a complimentary port system across Canada with provision of "safety valves" outlets in the event of service disruptions over the major arterial routes. Ports such as Churchill offer this potential and therefore justify active programs designed to promote self sufficiency in the longer term but with a recognition that in the shorter term, additional expenditures may be required.

Concern must be expressed over the future of the Great Lakes/St. Lawrence Seaway as a result of directional traffic flows and the longer term implications with respect to fares and tolls and Canada's ability to compete in the international grain market. Competition from U.S. gateways will add to this burden which could result in the ever declining competitiveness of the Seaway. We have recommended to the federal government that a joint study initiative be struck involving the federal government, affected provinces, shippers, shipping companies, and labour in evaluating the present and future role of the St. Lawrence Seaway in order to secure the integrity of this route for the benefit of all Canadians.

Since all Canadians do benefit from the provision of federally sponsored programs with respect to the port and marine facilities it should not be contingent upon the shipper alone to bear the full cost of the provision of facilities or service - particularly where this would result in a reduced level of competitiveness in the marketplace.

The Port of Churchill plays a major role in marine and air resupply operations in the north. It also offers a short route access to European ports for grain exports. Churchill also plays a significant role as a health referral centre. Education, scientific research, and testing and tourism are other important activities at this northern Manitoba community. Churchill is also important from the standpoint of sovereignty considerations.

However, in order for Churchill to realize its full potential requires a number of improvements including an extended season of navigation. Not only would this provide for meeting grain export needs but it would also encourage increased utilization of the port for other commodity exports and imports as well encouraging coastal trade. The increased and prolonged shipping over the Bay route will help to re-establish Canada's sovereignty of the north.

In recognition of the long-term strategic significance of Churchill, the Governments of Canada and Manitoba entered into a contractual agreement to foster the further development of Churchill as a northern transportation centre. This agreement, signed on April 13, 1984, called for a joint investment of $93 million which is to provide for a new tug, dredging of the harbour, dust control systems at the elevator, provision of hydro-electric power, improvements to the rail line and the provision of rolling stock. While the programs have not proceeded as expeditiously as had been committed, significant headway has been made.

Churchill should be complimenting the east-west routes and would serve as an effective "safety valve" to offset service disruptions on the major routes. However, this requires a continuing commitment towards port and access infrastructure improvements.

It is imperative that the new transportation environment enhance the targeted objective of the Canada - Manitoba Subsidiary Agreement on Churchill. To do otherwise would be a great disservice to the present and future interests of the region and the country. In delivering these programs it is vital that the costs of meeting developmental objectives are not passed in full to users. This consideration has been extended to all other routes and gateways. To disregard the requirement to extend equity to Churchill would destroy the objective of promoting utilization of the Bay route.

IX. COASTING TRADE

It may be considered expedient in the interests of sovereignty, self-sufficiency, employment and general economic activity to foster Canadian ship building and the utilization of Canadian vessels in the provision of marine services and coasting trade; however, any additional costs associated with the provision of these services should be assumed by the federal government and not passed on to the shippers since this will affect the competitiveness of shippers in the marketplace. Consumers that are captive will be required to pay a higher cost for their goods.

X. THE REGULATORY PROCESS

We subscribe to the concept of the White Paper that policies should be developed by the government and translated into legislation. Major policy decisions should continue to be the responsibility of the government and not the regulatory agency.

We believe that appointments to the regulatory agency should be of sufficient tenure to provide for autonomy. We support the concept of establishing regional offices for the regulatory agency and would add that appointments should ensure that staff are fully conversant with the transportation and distribution needs of the region.

In view of the economic and transport related activity in Winnipeg we believe that it is essential that a major regional office of the regulatory agency be located here to service the various modes.

XI. CONCLUSIONS

1. Meaningful consultation must continue between the federal government and the provinces and territories.

2. We would ask that the federal government proceed cautiously in implementing regulatory reform, making certain the pitfalls have been identified and corrective programs developed where required.

3. Sufficient research resources and staff are required to effectively administer and monitor the new regime. Carrier costing will continue to be required. The impact of regulatory reform must be monitored and assessed. We would also ask that grants to universities for transportation research be restored to insure that there are adequate resources available.

4. The new regime must be flexible to adapt to problems of users, carriers, labour and the public.

5. Manitoba will not support any program that refuses to consider the need for protecting the interests of transport sector employees including:

   - job security;
   - retraining programs;
   - provision of alternate employment.

6. Regulatory controls must counter the lack of effective intermodal and intramodal competition throughout Canada.

7. There must be no sacrifice of safety in implementing the new regulatory regime.

8. Carriers must be compensated for the actual costs incurred in the provision of imposed services.

9. There must be adequate safeguards to protect and promote the interests of small and captive shippers and communities.

10. The new regime must recognize the requirement for transportation to be used as a tool for promoting regional economic development. Commercial viability of transportation links must be balanced with regional economic objectives.

SECTION 254(3) RAILWAY ACT

...paragraph ...ission to any com- ...mmission considers expedient or desirable.

Matters to be considered by Commission

(3) In determining whether an uneconomic branch line or any segment thereof should be abandoned, the Commission shall consider all matters that in its opinion are relevant to the public interest including, without limiting the generality of the foregoing,

(*a*) the actual losses that are incurred in the operation of the branch line;

(*b*) the alternative transportation facilities available or likely to be available to the area served by the branch line;

(*c*) the period of time reasonably required for the purpose of adjusting any facilities, wholly or in part dependent on the services provided by the branch line, with the least disruption to the economy of the area served by the line;

(*d*) the probable effect on other lines or other carriers of the abandonment of the operation of the branch line or the abandonment of the operation of any segments of the branch line at different dates;

(*e*) the economic effects of the abandonment of the operation of the branch line on the communities and areas served by the branch line;

(*f*) the feasibility of maintaining the branch line or any segment thereof as an operating line by changes in the method of operation or by interconnection with other lines of the company;

(*g*) the feasibility of maintaining the branch line or any segment thereof as an operating line either jointly with or as part of the system of another railway company by the sale or lease of the line or segments thereof to another railway company or by the exchange of operating or running rights between companies or otherwise, including, where necessary, the construction of connecting lines with the lines of other companies; and

(*h*) the existing or potential resources of the area served by the branch line, seasonal restrictions on other forms of transportation therein and the probable future transportation needs of the area.

Commission examine ces demandes; mais rien au présent alinéa ne limite le pouvoir qu'a la Commission d'examiner les demandes de toute compagnie dans l'ordre qu'elle considère opportun ou désirable.

Questions à examiner par la Commission

(3) Lorsqu'elle décide si un embranchement non rentable ou tout segment de celui-ci doit ou non être abandonné, la Commission doit examiner tous les facteurs qui, à son avis, concernent l'intérêt public et, notamment, sans limiter la généralité de ce qui précède,

a) les pertes réelles subies du fait de l'exploitation de l'embranchement;

b) les autres moyens de transport dont dispose ou dont disposera vraisemblablement la région desservie par l'embranchement;

c) le laps de temps raisonnablement nécessaire à l'adaptation des moyens de transport qui dépendent en tout ou partie de services assurés par l'embranchement, de sorte que l'économie de la région desservie par la ligne en souffre le moins possible;

d) l'effet probable qu'aurait, pour d'autres lignes ou d'autres transporteurs, l'abandon de l'exploitation de l'embranchement ou l'abandon de l'exploitation de tronçons de l'embranchement à différentes dates;

e) les conséquences économiques de l'abandon d'exploitation de l'embranchement pour les collectivités et régions desservies par l'embranchement;

f) la possibilité de maintenir en service l'embranchement ou tout tronçon de celui-ci en modifiant la méthode d'exploitation ou en reliant l'embranchement à d'autres lignes de la compagnie;

g) la possibilité de maintenir en service l'embranchement ou tout tronçon de celui-ci, soit conjointement avec le système d'une autre compagnie de chemin de fer, soit en tant que partie de ce dernier, par la vente ou la location à bail de la ligne ou de tronçons de celle-ci à une autre compagnie de chemin de fer ou par l'échange des droits d'exploitation ou de parcours entre compagnies ou autrement, notamment, lorsque c'est nécessaire, par la construction de lignes de liaison avec les lignes d'autres compagnies; et

h) les ressources actuelles ou futures ressources éventuelles de la région desservie par l'embranchement, les restrictions sai-